

PERAC AUDIT REPORT



Massachusetts Turnpike Authority
Contributory Retirement System



JAN. 1, 2003 - DEC. 31, 2005 / PERAC 05-56



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

February 9, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Massachusetts Turnpike Authority Employees' Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There were no significant findings to report.

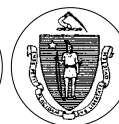
We commend the Massachusetts Turnpike Authority Employees' Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Ryan and Carol Niemira who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Massachusetts Turnpike Authority Employees' Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

		FOR THE PERIOD ENDING DECEMBER 31,		
ASSETS	2005	2004	2003	
Cash	\$3,111,922	\$2,771,523	\$3,369,610	
Short Term Investments	0	0	0	
Fixed Income Securities	0	0	47,975,455	
Equities	57,706,566	57,376,957	59,393,991	
Pooled Short Term Funds	0	0	0	
Pooled Domestic Equity Funds	0	0	0	
Pooled International Equity Funds	20,378,511	19,277,572	16,511,033	
Pooled Global Equity Funds	0	0	0	
Pooled Domestic Fixed Income Funds	64,446,590	63,012,996	12,807,354	
Pooled International Fixed Income Funds	0	9,602,270	8,577,599	
Pooled Global Fixed Income Funds	0	0	0	
Pooled Alternative Investment Funds	0	0	0	
Pooled Real Estate Funds	0	0	0	
Pooled Domestic Balanced Funds	28,648,170	35,109,620	29,427,852	
Pooled International Balanced Funds	0	0	0	
PRIT Cash Fund	0	0	0	
PRIT Core Fund	19,925,669	0	0	
Interest Due and Accrued	12,243	4,242	477,171	
Accounts Receivable	411,585	135,046	215,115	
Accounts Payable	(1,267,004)	(503,033)	(950,054)	
TOTAL	<u>\$193,374,252</u>	<u>\$186,787,192</u>	<u>\$177,805,125</u>	
FUND BALANCES				
Annuity Savings Fund	\$61,671,193	\$57,399,033	\$52,516,284	
Annuity Reserve Fund	18,077,956	18,070,990	18,827,063	
Pension Fund	0	0	0	
Military Service Fund	513	510	507	
Expense Fund	0	0	0	
Pension Reserve Fund	<u>113,624,591</u>	<u>111,316,659</u>	<u>106,461,272</u>	
TOTAL	<u>\$193,374,252</u>	<u>\$186,787,192</u>	<u>\$177,805,125</u>	

Massachusetts Turnpike Authority Employees' Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$47,011,656	\$19,656,690	\$0	\$502	\$0	\$88,719,921	\$155,388,769
Receipts	6,758,810	570,202	1,044,174	5	1,202,314	27,886,534	37,462,039
Interfund Transfers	(509,244)	548,213	10,106,213	0	0	(10,145,182)	0
Disbursements	(744,937)	(1,948,043)	(11,150,387)	0	(1,202,314)	0	(15,045,682)
Ending Balance (2003)	52,516,284	18,827,063	0	507	0	106,461,272	177,805,125
Receipts	6,488,314	542,700	1,966,025	3	1,332,783	13,953,202	24,283,026
Interfund Transfers	(690,708)	661,171	9,127,352	0	0	(9,097,814)	0
Disbursements	(914,857)	(1,959,943)	(11,093,377)	0	(1,332,783)	0	(15,300,960)
Ending Balance (2004)	57,399,033	18,070,990	0	510	0	111,316,659	186,787,192
Receipts	7,124,989	534,699	3,882,496	3	1,429,407	10,101,425	23,073,019
Interfund Transfers	(1,497,794)	1,548,783	7,742,505	0	0	(7,793,493)	0
Disbursements	(1,355,035)	(2,076,516)	(11,625,000)	0	(1,429,407)	0	(16,485,959)
Ending Balance (2005)	<u>\$61,671,193</u>	<u>\$18,077,956</u>	<u>\$0</u>	<u>\$513</u>	<u>\$0</u>	<u>\$113,624,591</u>	<u>\$193,374,252</u>

Massachusetts Turnpike Authority Employees' Retirement System

STATEMENT OF INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$5,957,260	\$5,560,481	\$5,185,726
Transfers from other Systems	476,837	443,075	1,009,664
Member Make Up Payments and Redeposits	192,601	82,209	76,431
Member Payments from Rollovers	161,831	89,994	19,162
Investment Income Credited to Member Accounts	<u>336,460</u>	<u>312,555</u>	<u>467,827</u>
Sub Total	<u>7,124,989</u>	<u>6,488,314</u>	<u>6,758,810</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>534,699</u>	<u>542,700</u>	<u>570,202</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	877,239	779,025	634,261
Received from Commonwealth for COLA and Survivor Benefits	0	0	0
Pension Fund Appropriation	<u>3,005,257</u>	<u>1,187,000</u>	<u>409,913</u>
Sub Total	<u>3,882,496</u>	<u>1,966,025</u>	<u>1,044,174</u>
Military Service Fund:			
Contribution Received from Authority on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>3</u>	<u>3</u>	<u>5</u>
Sub Total	<u>3</u>	<u>3</u>	<u>5</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>1,429,407</u>	<u>1,332,783</u>	<u>1,202,314</u>
Sub Total	<u>1,429,407</u>	<u>1,332,783</u>	<u>1,202,314</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	3,976	7,507	10,999
Excess Investment Income	<u>10,097,449</u>	<u>13,945,694</u>	<u>27,875,535</u>
Sub Total	<u>10,101,425</u>	<u>13,953,202</u>	<u>27,886,534</u>
TOTAL RECEIPTS	<u>\$23,073,019</u>	<u>\$24,283,026</u>	<u>\$37,462,039</u>

Massachusetts Turnpike Authority Employees' Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$797,339	\$566,803	\$521,502
Transfers to other Systems	<u>557,696</u>	<u>348,054</u>	<u>223,436</u>
Sub Total	<u>1,355,035</u>	<u>914,857</u>	<u>744,937</u>
Annuity Reserve Fund:			
Annuities Paid	2,008,681	1,935,027	1,908,827
Option B Refunds	<u>67,836</u>	<u>24,916</u>	<u>39,216</u>
Sub Total	<u>2,076,516</u>	<u>1,959,943</u>	<u>1,948,043</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	9,131,692	8,935,085	8,995,313
Survivorship Payments	800,959	746,162	682,839
Ordinary Disability Payments	261,769	232,018	289,306
Accidental Disability Payments	1,152,528	913,840	920,691
Accidental Death Payments	50,510	49,430	48,350
Section 101 Benefits	55,340	53,356	73,529
3 (8) (c) Reimbursements to Other Systems	<u>172,203</u>	<u>163,487</u>	<u>140,360</u>
Sub Total	<u>11,625,000</u>	<u>11,093,377</u>	<u>11,150,387</u>
Military Service Fund:			
Return to Authority for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,015	13,837	12,087
Salaries	240,313	236,626	187,057
Legal Expenses	44,860	30,080	23,778
Medical Expenses	173	2,528	814
Fiduciary Insurance	10,498	10,606	5,583
Service Contracts	35,302	47,282	36,285
Travel Expenses	9,352	3,236	6,637
Administrative Expenses	14,945	18,644	14,363
Furniture and Equipment	6,810	5,061	20,649
Management Fees	891,058	790,597	707,246
Custodial Fees	85,378	100,554	116,379
Consultant Fees	<u>75,705</u>	<u>73,732</u>	<u>71,436</u>
Sub Total	<u>1,429,407</u>	<u>1,332,783</u>	<u>1,202,314</u>
TOTAL DISBURSEMENTS	<u>\$16,485,959</u>	<u>\$15,300,960</u>	<u>\$15,045,682</u>

Massachusetts Turnpike Authority Employees' Retirement System

INVESTMENT INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$142,627	\$55,844	\$86,896
Short Term Investments	0	0	0
Fixed Income	0	2,522,635	3,247,339
Equities	753,795	948,567	703,025
Pooled or Mutual Funds	3,527,984	2,742,791	1,132,381
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>4,424,406</u>	<u>6,269,837</u>	<u>5,169,641</u>
Plus:			
Realized Gains	3,275,616	3,263,409	4,909,419
Unrealized Gains	16,960,239	15,768,342	25,170,668
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>12,243</u>	<u>4,242</u>	<u>477,171</u>
Sub Total	<u>20,248,098</u>	<u>19,035,992</u>	<u>30,557,259</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	(99,125)	(273,141)
Realized Loss	(1,647,710)	(3,013,867)	(1,953,904)
Unrealized Loss	(10,622,534)	(5,581,931)	(2,630,069)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(4,242)</u>	<u>(477,171)</u>	<u>(753,903)</u>
Sub Total	<u>(12,274,485)</u>	<u>(9,172,094)</u>	<u>(5,611,017)</u>
NET INVESTMENT INCOME	<u>12,398,019</u>	<u>16,133,736</u>	<u>30,115,883</u>
Income Required:			
Annuity Savings Fund	336,460	312,555	467,827
Annuity Reserve Fund	534,699	542,700	570,202
Military Service Fund	3	3	5
Expense Fund	<u>1,429,407</u>	<u>1,332,783</u>	<u>1,202,314</u>
TOTAL INCOME REQUIRED	<u>2,300,570</u>	<u>2,188,041</u>	<u>2,240,348</u>
Net Investment Income	<u>12,398,019</u>	<u>16,133,736</u>	<u>30,115,883</u>
Less: Total Income Required	<u>2,300,570</u>	<u>2,188,041</u>	<u>2,240,348</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$10,097,449</u>	<u>\$13,945,694</u>	<u>\$27,875,535</u>

Massachusetts Turnpike Authority Employees' Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE PERIOD ENDING DECEMBER 31, 2005

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$3,111,922	1.60%	100
Short Term	0	0.00%	100
Fixed Income	0	0.00%	40 - 80
Equities	57,706,566	29.71%	60
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	0	0.00%	60
Pooled International Equity Funds	20,378,511	10.49%	10
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	64,446,590	33.18%	40 - 80
Pooled International Fixed Income Funds	0	0.00%	10
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	0	0.00%	
Pooled Real Estate Funds	0	0.00%	
Pooled Domestic Balanced Funds	28,648,170	14.75%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	100
PRIT Core Fund	<u>19,925,669</u>	<u>10.26%</u>	100
GRAND TOTALS	<u>\$194,217,428</u>	<u>100.00%</u>	* at market

All investments are reflected at their quoted market value.

For the year ending December 31, 2005, the rate of return for the investments of the Massachusetts Turnpike Authority Employees' Retirement System was 7.19%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Massachusetts Turnpike Authority Employees' Retirement System averaged 4.66%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Massachusetts Turnpike Authority Employees' Retirement System was 9.61%.

Massachusetts Turnpike Authority Employees' Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

The Massachusetts Turnpike Authority Employees' Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

November 3, 2005

21.01(2)(3)(4)(5)

The PIMCO All Asset Fund seeks to achieve real rates of return by opportunistically investing in a broad range of SEC-regulated PIMCO mutual funds. In addition to funds that invest in short and long-term investment grade bonds, high yield bonds, global bonds, emerging market bonds, Treasury Inflation-Protected Securities, real estate securities, domestic and international stocks, the Fund may invest in the PIMCO Commodity Real Return Strategy Fund. Also, all the funds are permitted to achieve exposure to their respective markets by the use of derivative instruments, including options, futures, options on futures, and swaps. This strategy allows the funds to seek incremental returns by investing the available cash in short and intermediate-term fixed income instruments. Although not a fundamental part of the funds' strategies, the underlying funds are permitted to execute short sales.

Mellon Capital Global Alpha I seeks to produce absolute returns by entering into long and/or short asset positions in any of the countries and/or asset classes in the MSCI World and Citigroup WGBI Indices, or in the currencies of these countries. The fund takes positions in the stock and bond markets of the ten largest developed countries and eleven major currencies. It takes positions only in equity index funds and government bonds in the various countries. Utilizing long and/or short positions in these markets, the fund may make relative value bets within and among the stock markets, bond markets, or currencies of the major developed country markets. There will be no net short positions in the major asset classes and no leverage is employed. Market exposures may be achieved through the use of derivative contracts, all of which are expected to be fully collateralized, exchange-traded, and independently priced.

September 30, 2004

In accordance with Investment Guideline 99-2, the MTA Retirement Board is authorized to make a modest modification to its core bond mandate with Wellington Management Company. In order to save on investment management and custodial expenses, the Board is transferring from a separate account to a commingled fund, the WTC-CIF II Core Bond S1. The investment universe, strategy, and benchmark remain unchanged.

Massachusetts Turnpike Authority Employees' Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

January 22, 1998

20.03(1)

Equity investments shall not exceed 60% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market. Please be further advised that the supplementary regulation granted on December 10, 1991 for 20.04(7) is revoked and replaced with the following supplementary regulations:

20.03(2)

At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the portfolio valued at market.

20.04(7)

The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

August 8, 1996

20.06(10)

Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be corporate bonds and, as such, governed by guideline constraints pertaining to corporate bonds including those stated in the Statement of Objectives (Form 18-1) and PERAC Regulations 840 CMR.

May 9, 1996

20.04(1)

United States based corporations and equities of foreign corporations.

20.07(5)

Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

840 CMR 21.00(3)

Prohibited Investments

Futures Contracts other than as follows:

(a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

(b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

Massachusetts Turnpike Authority Employees' Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

January 21, 1992

16.02(3)

The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. As of January 1, 1992, such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

(a) 1% of the value of the fund for the first \$5 million; and

(b) 0.5% of the value of the fund in excess of \$5 million.

16.02(4)

The board may employ a custodian bank and as of January 1, 1992, may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

December 10, 1991

20.03(4)

The Massachusetts Turnpike Authority Retirement Board may optionally record fixed income securities convertible into common stocks as equity holdings or fixed income holdings.

20.04(6)

Taxable general obligation securities issued by any state, District of Columbia, U.S. possessions, or their political subdivisions, which carry the full faith and credit of the issuer for payment of principal and interest, and are denominated in U.S. currency and trade in U.S. markets, not to exceed for this category of fixed income securities 10% of the total book value of fixed income investments.

20.07(3)

Equity investments shall consist of no fewer than 20 holdings diversified by industry as of August 1, 1992.

20.07(4)

No more than 5% of the total book value of equity investments shall be invested in the equity securities of any one company as of August 1, 1992 and prior to that date, the Massachusetts Turnpike Authority Retirement Board may hold 1/2% of the total book value of the portfolio in the equity securities of one company.

August 6, 1991

20.02

Standard of Risk

The equity portion of a board's portfolio shall not be exposed to risks that exceed an annual average beta coefficient of 1.25 where 1.00 is equal to market volatility.

Massachusetts Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Massachusetts Turnpike Authority Employees' Retirement System member unit employees deemed eligible by the retirement board.

Instituted in July 1968, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Massachusetts Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. Under Ch. 566, the Massachusetts Turnpike Authority appropriates funds to meet future pension obligations.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

Massachusetts Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Massachusetts Turnpike Authority Employees' Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

May 17, 2004

Membership

- A person who is hired by the Massachusetts Turnpike Authority as a part-time employee shall become a member in service of the Massachusetts Turnpike Authority Employees' Retirement System; and
- A person who is hired by the Massachusetts Turnpike Authority as a temporary employee shall become a member in service of the Massachusetts Turnpike Authority Employees' Retirement System; and

Massachusetts Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

SUPPLEMENTARY MEMBERSHIP REGULATIONS, CONTINUED

- A person who is hired by the Massachusetts Turnpike Authority as a seasonal employee shall not be eligible for membership in the Massachusetts Turnpike Authority Employees' Retirement System by reason of such seasonal employment (except as required by law); and
- This rule and regulation shall not affect the right of this, or any other, retirement board to credit a member of the Massachusetts Turnpike Authority Employees' Retirement System with, or any other retirement system established under the provisions of Chapter 32 of the General Laws or under corresponding provisions of earlier laws, with service rendered by such member as a seasonal employee of the Massachusetts Turnpike Authority upon deposit in the annuity savings fund of the appropriate retirement system of the amount that would have been withheld as regular deductions from his salary during such service, together with interest thereon.

January 16, 2003

Travel Regulation

The Board has adopted a Supplementary Travel Regulation under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

August 5, 1985

Election Rules

Approval of supplementary rules for election of the elected board member.

November 20, 1996

Election Rules

Approval of supplementary rules for election of the elected board member.

Massachusetts Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the chief financial officer of the authority who shall be a member ex officio, a second member appointed by the appointing authority of the authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Domenic Tringale,
Chairman

Appointed Member: James Esposito, Jr. Term Expires: 3/1/2007

Elected Member: Francis Hoey Term Expires: 8/30/2008

Elected Member: Gerald Coughlin Term Expires: 12/18/2007

Appointed Member: David Grenon Term Expires: 6/30/2007

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

CFO - Custodian:)	
Ex officio Member:)	Fiduciary Liability \$50,000,000
Elected Member:)	Fidelity Bond \$1,000,000
Appointed Member:)	MACRS Policy
Staff Employee:)	

Massachusetts Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Group, Inc. as of January 1, 2006.

The actuarial liability for active members was	\$128,936,736
The actuarial liability for retired members was	122,961,813
The total actuarial liability was	251,898,549
System assets as of that date were	196,826,367
The unfunded actuarial liability was	\$55,072,182
The ratio of system's assets to total actuarial liability was	78.1%
As of that date the total covered employee payroll was	\$70,553,834

The normal cost for employees on that date was 8.95% of payroll

The normal cost for the employer was 2.47% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum

Rate of Salary Increase: 4.00% per annum through 2007, then 5.00% thereafter

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$196,826,367	\$251,898,549	\$55,072,182	78.1%	\$70,553,834	78.1%
1/1/2004	\$194,783,817	\$224,272,432	\$29,488,615	86.9%	\$64,285,304	45.9%
1/1/2002	\$197,133,845	\$191,294,378	(\$5,839,467)	103.1%	\$61,615,228	-9.5%
1/1/2000	\$177,069,820	\$172,188,630	(\$4,881,190)	102.8%	\$60,575,696	-8.1%
1/1/1999	\$162,179,395	\$151,774,632	(\$10,404,763)	106.9%	\$50,667,500	-20.5%
1/1/1998	\$149,545,039	\$143,697,064	(\$5,847,975)	104.1%	\$48,254,760	-12.1%

Massachusetts Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Superannuation	431	433	18	27	27	20	111	6	9	16
Ordinary Disability	23	20	1	0	0	1	0	0	0	3
Accidental Disability	24	24	1	1	5	5	2	7	1	5
Total Retirements	478	477	20	28	32	26	113	13	10	24
Total Retirees, Beneficiaries and Survivors	576	607	600	595	606	611	702	695	682	684
Total Active Members	2,139	2,036	2,040	1,444	1,393	1,382	1,260	1,241	1,296	1,398
Pension Payments										
Superannuation	\$4,452,720	\$6,004,082	\$5,984,518	\$6,071,052	\$6,301,005	\$6,612,934	\$7,079,833	\$8,995,313	\$8,935,085	\$9,131,692
Survivor/Beneficiary Payments	491,320	531,987	558,704	544,972	596,370	581,150	616,352	682,839	746,162	800,959
Ordinary Disability	250,465	239,137	199,082	179,687	202,503	286,377	257,043	289,306	232,018	261,769
Accidental Disability	335,976	345,812	318,498	394,705	545,929	704,869	813,745	920,691	913,840	1,152,528
Other	<u>131,807</u>	<u>148,219</u>	<u>151,018</u>	<u>236,253</u>	<u>206,539</u>	<u>185,344</u>	<u>188,703</u>	<u>262,238</u>	<u>266,272</u>	<u>278,052</u>
Total Payments for Year	<u>\$5,662,288</u>	<u>\$7,269,237</u>	<u>\$7,211,820</u>	<u>\$7,426,669</u>	<u>\$7,852,346</u>	<u>\$8,370,674</u>	<u>\$8,955,676</u>	<u>\$11,150,387</u>	<u>\$11,093,377</u>	<u>\$11,625,000</u>

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